The ILEC industry is recognized by the Federal Communications Commission ("FCC") as consisting of a few large non-rural carriers such as the regional bell operating companies ("RBOCs") and rural carriers that are generally small independently owned companies or RLECs.

Competitive Local Exchange Carrier Industry. The Telecommunications Act enabled the creation Local market or long-distance of the CLEC industry by facilitating competition in the local exchange for the end user's communications business. It is estimated that the total U.S. communications market approximates $240 billion, annually. Currently, industry analysts estimate that CLECs have less than a five percent of that market share.

Rural Telephone Industry. The FCC estimates that RLECs serve approximately eight percent of the nation's access lines and 38% of the US land area. The average population density for areas served by RLECs is 13 persons per square mile, compared to 105 persons per square mile for non-rural carriers. RLECs serve approximately 19 access lines per square mile while non-rural carriers serve 128 access lines per square mile.

According to United States Telecom Association data, there are approximately 1,200 independent telephone companies in the U.S., each of which serves less than 25,000 access lines. Generally, these small, privately held telephone companies operate in sparsely populated rural areas where competition from other providers (wireline or wireless) is limited because of the generally unfavorable economics of constructing and operating such competitive systems in rural areas. The Company believes that many of these RLEC owners are increasingly interested in selling their businesses as the growing technical, administrative and regulatory complexities of the local telephone business challenge their existing management capabilities. Also, certain large telephone companies are selling many of their small rural exchanges to focus their attention on their major metropolitan operations, which generate the greatest percentage of their consolidated revenue and which are increasingly threatened by competition. The Company believes the large companies will not continue to invest time and capital in their rural operations, which represent a relatively insignificant portion of their consolidated operations. Under these circumstances, the Company believes that it will continue to have opportunities to acquire RLECs and rural telephone operations currently owned by the large telephone companies which will allow the Company to accelerate the growth of the CLEC business.

Services

The Company is continually investing in its telecommunications network to ensure that it is and will be capable of meeting the growing demand for advanced voice and data communications services from its customers. These investments include deployment of technology that maintains the traditional suite of products, but also provides for broadband services by transitioning from a circuit-switched to a packet-switched network. The Company believes it is able to efficiently and reliably provide all of the telecommunications services required by its customers, thereby enhancing the Company's ability to build upon its recognized local brand identity within each of its markets.

The Company offers a bundled approach to its voice and data product offerings.

Voice services include basic local service, intrastate and interstate access, Centrex, enhanced calling features, long distance and other services such as dedicated or private line, cable television services and wireless telephony. Data products include full service Internet, dial up Internet access, DSL or high-speed data connectivity services, frame relay/ATM and web hosting. DSL is a technology enabling high-speed data access across existing telephone lines.

The Company is continually evaluating new product offerings and is currently developing IP Centrex, managed services, e-commerce hosting, application hosting and community portals.

Generation of Revenue

The Company generates revenue primarily through: (i) the provision of local telephone service to small to medium sized business and residential subscribers that include: dial tone, ISDN, Centrex, private lines, and switched data services; (ii) the provision of data services which include Internet access, DSL (which provides high-speed connection to the Internet or other broadband services over existing copper lines while simultaneously providing for traditional voice dial up service.) and frame relay/asynchronous transfer mode network; (iii) the provision of network access to IXCs for origination and termination of interstate and intrastate long distance calls; (iv) in the case of the RLECs, Universal Service Support Fund payments that supplement the RLECs high-cost of providing basic local service; and (v) the provision of ancillary services such as billing and collection, long distance resale, enhanced services, wireless services, cable television services, and customer premises equipment sales.

Sales and Marketing

The Company's marketing approach emphasizes locally managed, customer-oriented sales, marketing and service. The Company's objective is to differentiate itself from its competitors by providing superior product and customer support services in its markets.

The Company had 565 employees engaged in sales, marketing and customer service at December 31, 1999. The Company targets business, government, and institutional customers in fourth and select third tier markets and to its predominantly residential RLEC customers by offering complete voice and data solutions to meet its customers' communications needs.

Competition

The Company believes that the Telecommunications Act and other recent actions taken by the FCC and state regulatory authorities promote competition in the provision of telecommunications services.

The Company is pursuing the opportunity to be the preferred telecommunications provider of choice in the markets in which the Company operates. The Company is executing an "first to market" strategy in ex-urban or fourth and select third tier markets in proximity to the Company's RLEC markets. The Company believes its targeted ex-urban markets will support only one or two competitors in addition to the ILEC and, as a result, believes it is important to be a first entrant in each of its markets. The Company has successfully attracted and retained its customers through high quality customer service and comprehensive voice and data product offerings. The Company believes that its success-based, capital efficient business plan will provide a competitive advantage in its markets.

The Company intends to pursue the acquisition of RLECs that are strategically located and accelerate the capital efficient expansion of its ICP business. The Company expects that there will be increased competition for suitable acquisition candidates from other competitors engaged in the acquisition of RLECs. There are approximately 1,200 small independent companies, many of which may be suitable acquisition candidates. However, a continuing trend toward business combinations and alliances in the telecommunications industry may increase competition for such acquisition candidates.

Network Facilities

The Company is designing and expects to deploy an advanced packet switching network and to pursue VOIP/VTOA (voice over Internet protocol/voice telephony over ATM) architecture to augment the RLEC host switches. The Company believes this packet switched architecture will allow it to efficiently deliver integrated voice and data services to its customers at a lower cost than traditional circuit switched architecture. The Company expects to continue to leverage use of the RLEC switches and technical personnel as it deploys its network. The Company expects to continue co-locating remote switching facilities in the incumbent RBOC central office with the traffic then transported to the existing RLEC host switch. In some cases, the Company will build stand-alone switches in markets where transport costs back to the RLECs are unusually high, but in most cases the current host-remote network structure is utilized.

DSL-enabled integrated access technology is being deployed in all central office co-locations to minimize the last-mile local loop expense, as well as to provide significant broadband capacity to the Company's customers. The Company assembles a long-haul network at low cost through dark fiber purchases, UNE leases, selected builds and strategic partnerships. This provides low-cost transport for the host-remote links, lower the cost of long distance transport and enable the company to continue the growth of its long distance wholesale operation.

As of December 31, 1999, (i) the Company's RLEC franchise areas included 108 exchanges serving approximately 150,000 access lines that were located across approximately 13,100 square miles and (ii) the Company maintained over 14,700 miles of copper plant and 1,200 miles of fiber optic plant that interconnect the Company's remote central offices with IXCs serving the Company's subscribers. Upon completion of the Pending Acquisitions, the Company's RLECs franchise area will include 131 exchanges serving approximately 210,400 access lines. The Company's central office host and remote sites have advanced digital switches manufactured by Nortel or Siemens and current generic software which allows the Company to provide advanced calling features, products and services to its subscribers. The outside plant consists of transport and distribution delivery networks connecting the Company's host central office with remote central offices and ultimately with the Company's customers. Fiber optic technology is being deployed throughout the Company's network and is the primary transport technology between the Company's host and remote central offices and interconnection points with the RBOCs, GTE, long distance carriers and other RLECs. Where topography and geography permit, cable is generally buried, reducing the risk of service interruption from adverse weather.

The Company's fiber optic transport systems are primarily synchronous optical networks ("SONET"). This type of network allows the Company to build and design more durable networks, while utilizing the less durable asynchronous optical systems for limited local or specialized applications. The Company's fiber optic transport system is capable of supporting increasing customer demand for high bandwidth transport services and applications.

The Company has integrated numerous elements of its network to offer a variety of services and applications that meet increasingly sophisticated rural communications customers. These network elements include SS7 signaling networks, voice-messaging platforms, DSL capability, and numerous customer located key and PBX systems. As the telecommunications industry is subject to rapid and significant changes in technology, customer demand and competitive pressures, the Company endeavors to introduce additional elements of functionality to its network, including frame relay and ATM switches, local number portability, AIN services, and VOIP opportunities.

The Company has been segmenting its rural copper plant network into Carrier Serving Areas ("CSA's"), effectively multiplying embedded copper plant capacity and enabling unencumbered service deployment throughout the Company's service areas. The Company's strategy is to push the intelligence and unencumbered capabilities of host digital central office switch and transport closer to its increasingly sophisticated rural communications customers by deploying remote switches throughout the Company's service areas.

The Company plans to prudently invest capital to maintain, replace and upgrade its entire telecommunications infrastructure. The Company continually reviews expenditures to ensure they are economically justifiable and result from an integrated network planning process.

Employees

As of December 31, 1999, the Company employed a total of 947 full-time employees of which 83 employees are represented by unions. The Company has collective bargaining agreements with (i) Local 23-26 of the International Brotherhood of Electrical Workers (AFL-CIO) 107 covering 7 employees employed by its Northland Telephone Company of Vermont subsidiary; (ii) Local 1115 of the Communications Workers of America, covering 15 employees employed by its subsidiary, Chautauqua & Erie Telephone Corp., in New York; and (iii) Local 166 of the International Brotherhood Electrical Workers

(AFL-CIO), covering 61 employees employed by its Taconic Telephone Corp. subsidiary in New York. The contracts expire in February 2002, January 2003 and March 2000, respectively. The Company is currently in final negotiation on the renewal of the March 2000 contract. The Company cannot predict whether agreement will be reached with the union on such contract.

The Company believes the state of its relationship with its employees to be good.

ITEM 2. PROPERTIES

The Company either leases or owns its administrative offices and generally owns its maintenance facilities, rolling stock, co-location equipment, central office and remote switching platforms and outside plant. Administrative and maintenance facilities are generally located in or near community centers. Co-location equipment is located in leased space in the incumbent local exchange carrier's central office. Central offices are often within the administrative building and outlying customer service centers. Auxiliary battery or other non-utility power sources are at each central office to provide uninterrupted service in the event of an electrical power failure. Transport and distribution network facilities (outside plant) include fiber optic backbone and copper wire distribution facilities, which connect customers to remote switch locations or to the central office and to points of presence or interconnection with the IXCs. These facilities are located on land pursuant to permits, easements or other agreements. Rolling stock includes service vehicles, construction equipment and other required maintenance equipment.

ITEM 3. LEGAL PROCEEDINGS

The Company currently and from time to time is involved in litigation and regulatory proceedings incidental to the conduct of its business, but the Company is not a party to any lawsuit or proceeding which, in the opinion of the Company, is likely to have a material adverse effect on the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the security holders of MJD during the fourth quarter of the fiscal year.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

There is no established public market for the common equity of the Company. Substantially all of the Company's outstanding common equity securities are owned by Kelso, certain institutional investors and the Company's executive officers and directors. THL owns all of the Company's outstanding preferred equity.

There were 5,359,860 options to purchase shares of Class A Common Stock outstanding as of March 15, 2000, of which 592,460 were fully vested. Upon receipt of all required regulatory approvals, all of the outstanding shares of Class B Common Stock and Series D Preferred Stock will be automatically converted into an equal number of shares of Class A Common Stock.

There are no shares of common stock that could be sold pursuant to Rule 144 under the Securities Act or, other than pursuant to the Registration Rights Agreement (as defined herein), that MJD has agreed to register under the Securities Act for sale by the security holders.

There are no shares that are being, or have been publicly proposed to be, publicly offered by MJD in which such offering could have a material effect on the market price of MJD's common equity.

The ability of the Company to pay dividends is governed by restrictive covenants contained in the indenture governing its publicly held debt as well as restrictive covenants in the Company's bank lending arrangement. The Company has never paid cash dividends on its equity securities and currently has no intention of paying cash dividends on its equity securities for the foreseeable future.

On January 20, 2000, the Company declared a stock split in the form of a stock dividend of 19 shares for each share of capital stock held of record as of January 31, 2000 (the "Stock Split"). All share numbers and purchase price amounts disclosed herein have been adjusted to give effect to this stock dividend.

ITEM 6. SELECTED FINANCIAL DATA

The selected data presented below under the captions "Statement of Operations Data" and "Balance Sheet Data" for, and as of the end of, each of the years in the five-year period ended December 31, 1999, are derived from the consolidated financial statements of MJD Communications, Inc. and its subsidiaries, which have been audited by KPMG LLP, independent certified public accountants. Dollar amounts are presented in thousands.

	Actual				
	Year Ended December 31,				
	1999	1998	1997	1996	1995
	(dollars in thousands)				
Statement of Operations Data:					
Operating revenues:					
Switched services	$108,430	$ 72,124	$39,257	$27,973	$22,763
Resold services	22,323	7,803	4,531	100	—
Other	16,786	12,080	3,975	2,283	1,986
Total operating revenues	147,539	92,007	47,763	30,356	24,749
Operating expenses:					
Plant operations	21,088	14,293	6,857	4,181	3,746
Corporate and customer service	54,901	27,635	12,483	7,577	6,433
Depreciation and amortization	31,632	20,089	8,777	6,644	5,757
Cost of services resold	19,190	6,163	4,791	97	—
Other	9,028	7,265	2,416	1,658	1,407

	Actual				
	Year Ended December 31,				
	1999	1998	1997	1996	1995
	(dollars in thousands)				
Total operating expenses	135,839	75,445	35,324	20,157	17,343
Income from operations	11,700	16,562	12,439	10,198	7,406
Other income (expense):					
Net gain (loss) on sale of investments and other assets	512	651	(19)	(3)	(30)
Interest income	446	442	212	180	225
Dividend income	1,452	1,119	1,182	667	664
Interest expense	(51,185)	(27,170)	(9,293)	(9,605)	(7,267)
Other, net	2,520	885	140	(15)	33
Total other expense	(46,255)	(24,073)	(7,778)	(8,776)	(6,375)
Earnings (loss) before income taxes and extraordinary item	(34,555)	(7,511)	4,661	1,423	1,031
Income tax (expense) benefit	5,615	2,112	(1,876)	(1,462)	(547)
Earnings (loss) before extraordinary item and minority interest	(28,940)	(5,399)	2,785	(39)	484
Extraordinary item	—	(2,521)	(3,611)	—	—
Earnings (loss) before minority interest	(28,940)	(7,920)	(826)	(39)	484
Minority interest in income of subsidiaries	(100)	(80)	(62)	(33)	(6)
Net earnings (loss)	$(29,040)	(8,000)	(888)	(72)	478
Balance Sheet Data:					
Cash and cash equivalents	$ 9,923	$ 13,241	$ 6,822	$ 4,253	$ 3,672
Working capital	13,880	10,778	108	596	1,026
Property, plant and equipment, net	178,296	142,321	61,207	41,615	37,048
Total assets	516,255	442,112	144,613	97,020	79,218
Long-term debt, net of current portion	458,529	364,610	131,912	73,958	64,180
Redeemable preferred stock	—	—	130	10,689	6,701
Total stockholders' equity (deficit)	(11,581)	9,886	(10,939)	(2,142)	103
Other Financial Data:					
Adjusted EBITDA(1)	$ 48,162	$ 39,668	$22,669	$17,639	$14,050
Capital expenditures	43,509	12,433	8,262	8,439	4,439
Ratio of earnings to fixed charges(2) (3)	—	—	1.5x	1.1x	1.1x
Summary Cash Flow Data:					
Net cash provided by operating activities	$ 7,704	$ 14,867	$ 9,839	$ 9,772	$ 6,039
Net cash provided by (used in) investing activities	(76,610)	(225,522)	(38,967)	(19,790)	(4,481)
Net cash provided by (used in) financing activities	65,588	217,074	31,697	10,599	(2,903)
Operating Data:					
Access lines in service	190,722	136,374	48,731	34,017	28,737

(1) Adjusted EBITDA represents net earnings (loss) plus interest expense, income taxes, depreciation and amortization, and extraordinary items. Adjusted EBITDA is presented because management believes it provides useful information regarding the Company's ability to incur and/or service debt. Management expects that investors may use this data to analyze and compare other telecommunications companies with the Company in terms of operating performance, leverage and liquidity. Adjusted EBITDA is not a measure of financial performance under generally accepted accounting principles and should not be construed as a substitute for consolidated net earnings (loss) as a

measure of performance, or for cash flow as a measure of liquidity. The definition of EBITDA in the indenture governing the Notes (as defined herein) (the "Indenture") is designed to determine EBITDA for the purposes of contractually limiting the amount of debt which the Company may incur. Adjusted EBITDA presented herein differs from the definition of EBITDA in the Indenture, which excludes from the calculation of EBITDA (i) net income of Unrestricted Subsidiaries (as defined in the Indenture) unless such net income is actually dividended to the Company or a Restricted Subsidiary (as defined in the Indenture) and (ii) net income of any Restricted Subsidiary to the extent there is any restriction on the ability of such Restricted Subsidiary to pay dividends to the Company (except that the Company's equity in the net income of any such Restricted Subsidiary is included to the extent of dividends actually received by the Company from such Restricted Subsidiary). The definition of EBITDA in the Indenture is a component of the term "Pro Forma EBITDA" in the Indenture, which is used in a financial covenant calculation therein. Pro Forma EBITDA, as defined in the Indenture, differs from Adjusted EBITDA primarily because it is calculated after giving effect to cost savings the Company believes will be achieved during the applicable period. Adjusted EBITDA as calculated by the Company is not necessarily comparable to similarly captioned amounts of other companies.

(2) For purposes of determining the ratio of earnings to fixed charges, earnings are defined as earnings before income taxes, minority interest, income or loss from equity investees and extraordinary items, plus distributed income of equity investees, amortization of capitalized interest, and fixed charges. Fixed charges include interest expense on all indebtedness, capitalized interest and rental expense on operating leases representing that portion of rental expense deemed to be attributable to interest. The Company had a deficiency of $34.5 million and $7.5 million to cover fixed charges in 1999 and 1998, respectively.

(3) On January 20, 2000, the Company repaid borrowings of approximately $75.2 million under the Company's senior secured revolving credit facility and approximately $27.1 million under FairPoint's revolving credit facility. See note 2 to the consolidated financial statements for additional information. Interest expense on these borrowings was approximately $1.3 million. Interest expense under the Company's revolving credit facility was approximately $0.06 million during 1998. During 1998, FairPoint did not incur debt; therefore there was no interest expense reported. For purposes of calculation of the pro forma ratio of earnings to fixed charges, the net pro forma change to interest expense of $1.3 million and $0.06 million in 1999 and 1998, respectively, was added to the Company's earnings as defined in note (2) above. The Company had a pro forma deficiency of $33.2 million and $7.5 million to cover fixed charges in 1999 and 1998, respectively.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

General. MJD is a rapidly growing facilities-based ICP offering a suite of bundled voice and data products to small to medium-sized business subscribers in ex-urban markets (generally markets with populations of less than 100,000) and predominantly residential subscribers in rural markets residential. The Company is seeking to position itself as a leading single source provider of voice services, including basic local services, intra and inter-state access services, long distance services and other voice communications services, and data product offerings, such as Internet access and DSL services, to meet the growing demand for broadband services. MJD believes it is executing a capital efficient ICP business strategy by leveraging the switching infrastructure at its acquired RLECs to edge out into new markets in proximity to areas served by its RLECs. As of December 31, 1999, the Company was providing service to over 190,000 access lines in 96 markets located in thirteen states throughout the United States.

For the year ended December 31, 1999, the Company had operating revenues and Adjusted EBITDA (as defined in Note 1 to "Selected Financial Data") of approximately $147.5 million and approximately $48.2 million, respectively. The Company provided net cash of approximately $7.7 million from operating activities, used net cash of approximately $76.6 million in investing activities and provided net cash of approximately $65.6 million from financing activities for the year ended December 31, 1999.

The growth realized by the Company through its ICP business strategy is supported by the stable growth and cash flow from its RLECs that typifies the stable economic and demographic characteristics of the RLECs rural markets. Historically, the primary reason for the Company's growth in revenue and cash flow has been the acquisition of additional RLECs. In the future, the Company believes FairPoint will experience continued growth, but will report negative cash flow during the market expansion phase of its ICP business plan.

Operating Revenues: The Company generates revenue primarily through: (i) the provision of local telephone service to customers within its service areas; (ii) the provision of network access to IXCs for origination and termination of interstate and intrastate long distance telephone calls; and (iii) the provision of other services such as billing and collection, long distance resale, enhanced services, wireless services, cable television services, Internet access services and customer premises equipment sales; and (iv) FairPoint's operations. The revenues listed in clauses (i) and (ii) above are classified by the Company as "Switched services." The revenues listed in clause (iii) above are classified by the Company as "Other revenue", except for services resold which are classified as "Resold services". The FairPoint revenues are classified by the Company as "Resold services".

	% of Revenue		
Revenue Source	**1999**	**1998**	**1997**
Switched services	73.5%	78.4%	82.2%
Resold services	15.1%	8.5%	9.5%
Other services	11.4%	13.1%	8.3%

Operating Expenses: The Company's operating expenses are categorized as plant operations, corporate and customer service, depreciation and amortization, cost of services resold and other general and administrative expenses. Year to year operating expense changes are influenced by access line growth, the Company's acquisition activity, general business inflationary adjustments and the expenses of FairPoint. Plant operations expenses consist of operating expenses incurred by the Company in connection with the operation of its central offices and outside plant facilities and related operations. Corporate and customer service expenses consist of expenses generated by the Company's general management, accounting, engineering, marketing and customer service functional groups. Cost of services resold are the expenses incurred to provide long distance resale by STLD and local and long distance resale by FairPoint. Other general and administrative expenses are expenses such as property taxes and other miscellaneous expenses.

Other (Income) Expenses: The Company's other income includes interest income, dividends, gain or loss on sale of investments and other assets and other miscellaneous, non-operating income. The Company's other expenses consist primarily of interest on the Company's debt and other non-operating expenses.

Results of Operations

Year Ended December 31, 1999 Compared with Year Ended December 31, 1998

Operating Revenues. Operating revenues increased $55.5 million to $147.5 million in 1999 from $92.0 million in 1998 for the year ended December 31. The 1999 Acquisitions and the acquisitions completed by the Company in 1998 (the "1998 Acquisitions") accounted for $40.3 million of the revenue increase while for the RLECs owned and operated for a comparable period, operating revenues increased by $4.6 million to $61.9 million from $57.3 million. FairPoint's operating revenues increased $10.6 million to $11.7 million in 1999 compared to $1.1 million in 1998, as a result of the growth of FairPoint's operations.

Basic local service revenue increased $9.1 million to $26.8 million in 1999 from $17.7 million in 1998 for the year ended December 31. This revenue increase is primarily attributable to an increase in access lines from internal growth and access lines acquired in the 1999 Acquisitions and the 1998 Acquisitions.

The 1999 Acquisitions and the 1998 Acquisitions accounted for 96,523 access lines, or 64%, the total RLEC access lines operated by the Company at December 31, 1999. The RLECs owned and operated by the Company for the comparable periods achieved internal growth of 3,103 access lines. The 1999 Acquisitions and the 1998 Acquisitions contributed $8.4 million of the increase in basic local service revenue in 1999 while the RLECs owned and operated for a comparable period contributed $0.7 million of the increase.

USSF revenue increased $2.5 million to $7.2 million in 1999 from $4.7 million in 1998 for the year ended December 31. The 1999 Acquisitions and 1998 Acquisitions contributed $1.6 million of the increase in USSF revenue, while for the RLECs owned and operated for a comparable period, USSF revenues increased by $0.9 million to $5.2 million.

Network access revenue increased $24.7 million to $74.4 million in 1999 from $49.7 million in 1998 for the year ended December 31. This revenue increase is primarily attributable to the increase in minutes of use contributed from internal growth and by the 1999 Acquisitions and the 1998 Acquisitions. Network access revenue contributed by the 1999 Acquisitions and the 1998 Acquisitions was $22.4 million. For the RLECs owned and operated for a comparable period, network access revenue increased by $2.3 million to $34.8 million. The increase in network access revenues in 1999 was primarily associated with cost study true up payments received as a result of 1998 traffic pattern shifts that resulted in higher network access revenue.

Resold service revenue increased $14.5 million to $22.3 million in 1999 from $7.8 million in 1998 for the year ended December 31. Revenue contributed by the 1999 Acquisitions and the 1998 Acquisitions provided $2.9 million of the increase in resold service revenues. Long distance service resold contributed $1.0 million. FairPoint's operations provided $10.6 million of the increase in resold service revenue.

Other revenues increased $4.7 million to $16.8 million in 1999 from $12.1 million in 1998 for the year ended December 31. Revenue contributed by the 1999 Acquisitions and the 1998 Acquisitions provided a $4.9 million increase in other revenues for the year ended December 31, 1999. For the RLECs owned and operated for the comparable period by the Company, other revenues decreased $0.2 million to $5.1 million.

Operating Expenses. Operating expenses, which include plant operations, corporate and customer service, depreciation and amortization, cost of services resold and other general and administrative expenses, increased $60.4 million to $135.8 million in 1999 from $75.4 million in 1998 for the year ended December 31. The increase was attributable in part to operating expenses associated with the 1999 Acquisitions and the 1998 Acquisitions, which in the aggregate accounted for $24.3 million of the increase. In addition, for the RLECs owned and operated for a comparable period, operating expenses increased approximately $8.3 million, or 18.8%, to $52.4 million in 1999 from $44.1 million in 1998. The change was primarily attributable to an increase in corporate and customer service expenses and in cost of services resold at FairPoint. The corporate expense increase can be attributed to approximately $0.8 million in acquisition due diligence costs incurred as a result of unsuccessful bids to acquire certain RLEC assets, approximately $0.8 million associated with the buyout of an employee contract and approximately $3.4 million in executive compensation expense related to stock appreciation rights of certain management members. Long distance toll costs increased $1.8 million as the number of companies that receive wholesale services from STLD has increased. In addition, the wholesale rates in the state of Maine increased dramatically during 1999. FairPoint's operating expenses increased $25.9 million from $5.5 million to $31.4 million in 1999.

Income from Operations. As a result of the factors described above, income from operations decreased $4.9 million to $11.7 million in 1999 from $16.6 million in 1998 for the year ended December 31. As a percentage of revenues, income from operations was 7.9% as compared to 18.0% in 1999 and 1998, respectively. This margin decline in 1999 is primarily attributable to the expenses associated with FairPoint, an increase in corporate and customer services expenses and long distance cost of services resold. This trend is expected to continue for the foreseeable future as the implementation of the FairPoint business is completed. For the RLECs owned and operated for a comparable period, the income from operations decreased $3.7 million to $9.5 million. The income from operations margin decreased to 15.4% from 23.1%. This decrease was primarily attributable to an increase in corporate and customer services expenses and the $3.4 million in executive compensation expense related to stock appreciation rights of certain management members. The income from operations margin for the RLECs owned and operated for a comparable period was approximately 21% when adjusted for the $3.4 million in executive compensation expense related to stock appreciation rights of certain management members.

Other Income (Expense). Total other expense increased $22.2 million to $46.3 million in 1999 from $24.1 million in 1998 for the year ended December 31. The increase was primarily attributable to an increase in interest expense associated with the additional debt incurred to complete the 1999 Acquisitions and 1998 Acquisitions and a $13.3 million increase associated with the retirement of certain warrants issued by our subsidiary, ST Enterprises, Ltd. See also note 9 to the consolidated financial statements for additional information.

Extraordinary Item. For the year ended December 31, 1998, the Company recognized an extraordinary loss of $2.5 million (net of taxes) related to the early retirement of debt.

Year Ended December 31, 1998 Compared with Year Ended December 31, 1997

Operating Revenues. Operating revenues increased $44.2 million to $92.0 million in 1998 from $47.8 million in 1997 for the year ended December 31. The 1998 Acquisitions and the acquisitions completed by the Company in 1997 (the "1997 Acquisitions") accounted for $42.1 million of the revenue increase while for the RLECs owned and operated for a comparable period, operating revenues increased by $1.0 million to $43.9 million from $42.9 million. FairPoint reported first year revenues of $1.1 million in 1998.

Basic local service revenue increased $10.1 million to $17.7 million in 1998 from $7.6 million in 1997 for the year ended December 31. This revenue increase is primarily attributable to an increase in access lines from internal growth and access lines acquired in the 1998 Acquisitions and the 1997 Acquisitions. The 1998 Acquisitions accounted for 78,700 access lines, or 61% of total access lines operated by the Company at December 31, 1998. The RLECs owned and operated by the Company for the comparable periods achieved internal growth of 2,300 access lines. The 1998 Acquisitions and the 1997 Acquisitions contributed $9.7 million of the increase in basic local service revenue in 1998 while the RLECs owned and operated for a comparable period contributed $0.4 million of the increase.

USSF revenue increased $0.4 million to $4.7 million in 1998 from $4.3 million in 1997 for the year ended December 31. The 1998 Acquisitions and 1997 Acquisitions contributed $0.7 million of the increase in USSF revenue, while for the RLECs owned and operated for a comparable period, USSF revenues decreased by $0.3 million to $3.7 million

Network access revenue increased $22.4 million to $49.7 million in 1998 from $27.3 million in 1997 for the year ended December 31. This revenue increase is primarily attributable to the increase in minutes of use contributed from internal growth, the 1998 Acquisitions and the 1997 Acquisitions, and an increase in interstate and intrastate settlement revenue administered by NECA or a respective state's settlement methodologies. Network access revenue contributed by the 1998 Acquisitions and the 1997 Acquisitions was $21.5 million. For the RLECs owned and operated for a comparable period, network access revenue increased by $0.9 million to $26.0 million.

Resold service revenue increased $3.3 million to $7.8 million in 1998 from $4.5 million in 1997 for the year ended December 31. Revenue contributed by the 1998 Acquisitions and the 1997 Acquisitions provided $1.8 million of the increase in resold service revenues. Long distance service resold contributed $0.4 million. FairPoint reported first year revenue of $1.1 million.

Other revenues increased $8.1 million to $12.1 million in 1998 from $4.0 million in 1997 for the year ended December 31. Revenue contributed by the 1998 Acquisitions and the 1997 Acquisitions provided $8.5 million in other revenues for the year ended December 31, 1998. For the RLECs owned and operated for the comparable period by the Company, other revenues decreased $0.4 million for the year ended December 31, 1998.

Operating Expenses. Operating expenses, which include plant operations, corporate and customer service, depreciation and amortization, cost of services resold and other general and administrative expenses, increased $40.1 million to $75.4 million in 1998 from $35.3 million in 1997 for the year ended December 31. The increase was primarily attributable to the operating expenses associated with the 1998 Acquisitions and the 1997 Acquisitions, which in the aggregate accounted for $31.6 million of the increase. Expenses associated with the start up and operation of FairPoint were $5.9 million of the increase in 1998. In addition, for the RLECs owned and operated for a comparable period, operating expenses increased approximately $2.6 million, or 8.3%, to $34.0 million in 1998 from $31.4 million in 1997. The change was primarily attributable to a $3.0 million increase in corporate and customer service expenses associated with the dramatic growth experienced by the Company in 1998.

Income from Operations. As a result of the factors described above, income from operations increased $4.2 million to $16.6 million in 1998 from $12.4 million in 1997 for the year ended December 31. As a percentage of revenues, income from operations was 18.0% as compared to 26.0% for the years ended December 31, 1998 and 1997, respectively. This margin decline in 1998 is primarily attributable to the expenses associated with FairPoint. For the RLECs owned and operated for a comparable period, the income from operations decreased $1.8 million to $9.7 million. The income from operations margin decreased to 22.4% from 26.9%. This decrease was primarily attributable to an increase in corporate and customer services expenses.

Other Income (Expense). Total other expense increased $16.3 million to $24.1 million in 1998 from $7.8 million in 1997 for the year ended December 31. The increase was primarily attributable to an increase in interest expense associated with the additional debt incurred to complete the 1998 Acquisitions. The increase in other expenses was partially offset by a net gain from sale of assets of $0.7 million and an increase of $0.2 million in dividend and interest income from the Company's investments.

Extraordinary Item. For the year ended December 31, 1998, the Company recognized an extraordinary loss of $2.5 million (net of taxes) related to the early retirement of debt.

Liquidity and Capital Resources

The Company's strategy requires significant capital resources. The Company historically has used the proceeds from institutional and bank debt, private equity offerings, and available cash flow to fund the Company's strategy..

The Company maintains a senior secured credit facility (the "Credit Facility"), which within the Credit Facility is an $85.0 million reducing revolving term facility with a remaining term of five years. This facility is available for general corporate purposes, capital expenditures and acquisitions. At December 31, 1999, there was an outstanding balance of approximately $76.0 million and approximately $9.0 million was available under this revolving term facility. On January 20, 2000, this revolving term facility was repaid from the net cash proceeds generated from the Equity Financing and as of March 15, 2000, the Company had available under the revolving term facility $85.0 million. Borrowings under the Credit Facility are guaranteed by the Company's four mid-tier subsidiary companies and secured by a pledge of the stock of certain subsidiaries. Also, the Credit Facility provides for an additional $165.0 million Acquisition Facility. On March 14, 2000, this facility was committed and made available to the Company to finance the Pending Acquisitions, which are expected to be completed during the second quarter of 2000. Pursuant to the Credit Facility, the Company is required to comply with certain financial covenants. For the year ended December 31, 1999, the Company was in compliance with such covenants. See note 6 to the consolidated financial statements for additional information.

On May 5, 1998, the Company completed a public offering of debt consisting of $125.0 million in aggregate principal amount of 9½% Senior Subordinated Notes (the "Fixed Rate Note") and $75.0 million in aggregate principal amount of Floating Rate Callable Securities (the "Floating Rate Note"), each due in 2008 (collectively, the "Notes"). The Notes are general unsecured obligations of the Company, subordinated in right of payment to all existing and future senior debt of the Company and effectively subordinated to all existing and future debt and other liabilities of the Company's subsidiaries. Interest on the Notes is payable semi-annually.

FairPoint has and expects to continue to establish operations in additional ex-urban markets, which is expected to result in continuing operating losses reported by FairPoint. The Company invested equity of approximately $4.2 million in 1998 and approximately $13.7 million in 1999 to enable FairPoint to expand into 86 additional markets and increase the total number of CLEC markets served by FairPoint to approximately 96. In addition, FairPoint has invested and expects to continue to invest in telecommunications facilities to migrate its customers to the Company's existing networks. FairPoint expects it will require substantial funds for capital expenditures in 2000 and 2001. The Credit Facility limits the Company's investment in its CLEC business to (i) $5.0 million per year so long as the senior debt leverage ratio (as calculated under the Credit Facility) exceeds 4.5x and (ii) $15.0 million per year whenever such leverage ratio is under 4.5x.

On October 20, 1999, FairPoint closed a $100.0 million convertible senior secured revolving credit facility (the "FairPoint Credit Facility"). On March 27, 2000, this credit facility was increased from $100.0 million to $200.0 million. Under the FairPoint Credit Facility, funds are available on a revolving basis until March 2001; provided that upon receiving certain approvals, the maturity date will be extended until October 2004. Subsequently, all existing and future assets of FairPoint (including the stock of its restricted subsidiaries) secure the borrowings under the FairPoint Credit Facility. Pursuant to the terms of the FairPoint Credit Facility, FairPoint is required to comply with certain financial covenants. Upon default of certain covenants or non-payment at final maturity, at the lenders' option, the lender may exchange all outstanding indebtedness plus outstanding and accrued interest for an equal dollar amount of payment-in-kind preferred stock issued by the Company. FairPoint has only a limited operating history and operates in a competitive environment. In addition, FairPoint has significant capital requirements due to the significant expenditures necessary to sell and market its CLEC services and to purchase equipment to conduct operations. FairPoint has relied, and is expected to continue to rely, on the Company to fund its equity capital requirements and provide credit support for its debt financing needs. The FairPoint Credit Facility, together with cash invested and to be invested by the Company, is expected to fund FairPoint's current business plan through the first quarter of 2001. At December 31, 1999, there was an outstanding balance of approximately $21.7 million under the FairPoint Credit Facility, which was subsequently retired from proceeds received from the Equity Financing as discussed below. For the year ended December 31, 1999, the Company was in compliance with the covenants set forth in the FairPoint Credit Facility. See Note 6 to the consolidated financial statements for additional information.

On January 20, 2000, in connection with the Equity Financing, THL purchased a total of 21,461,720 shares of the Company's Series D Preferred Stock for an aggregate purchase price of approximately $281.5 million. THL acquired 3,580,860 shares of Series D Preferred Stock from the Company for an aggregate purchase price of approximately $47.0 million, 13,955,760 shares of Series D Preferred Stock (representing all of Carousel's equity interest in the Company) from Carousel for an aggregate purchase price of approximately $183.0 million and 3,925,100 shares of Series D Preferred Stock from the founding stockholders and members of senior management for an aggregate purchase price of approximately $51.5 million. All of the shares of Series D Preferred Stock sold by Carousel and senior management to THL and a portion of the shares of Series D Preferred Stock sold by the founding stockholders to THL were acquired from the Company in exchange for an equal number of shares of Class A Common Stock. The remaining shares of Series D Preferred Stock sold by the founding stockholders to THL were acquired from Kelso as described below.

Kelso acquired 4,243,728 shares of the Company's Class B Common Stock for an aggregate purchase price of approximately $55.7 million and 1,093,060 shares of Series D Preferred Stock for an aggregate purchase price of approximately $14.3 million. Kelso assigned the shares of Series D Preferred Stock to the founding stockholders in satisfaction of certain obligations to such stockholders under the Company's previous stockholders agreement. Kelso also exchanged 8,300,000 shares of Class A Common Stock for an equal number of shares of Class B Common Stock.

Both the Series D Preferred Stock and the Class B Common Stock will automatically convert into an equal number of shares of Class A Common Stock upon receipt of all required regulatory approvals. In addition, as part of this Equity Financing, the Company sold 4,269,440 shares of non-voting Class C Common Stock to certain institutional investors for an aggregate purchase price of approximately $56.0 million.

On January 31, 2000, the Company completed the Equity Financing by selling 100,160 shares of Class A Common Stock to certain members of the Company's management for an aggregate purchase price of approximately $1.3 million.

The net cash proceeds to the Company from the Equity Financing of approximately $159.3 million have been and will be used to repay long term debt, to fund the expansion of FairPoint's CLEC business and to complete the Pending Acquisitions.

The Company's principal liquidity requirements are expected to be for capital expenditures, expansion of FairPoint's CLEC business, finance the Company's pending and future acquisition activities, debt service and general corporate purposes.

Net cash provided by operating activities was $7.7 million and $14.9 million for the years ended December 31, 1999 and 1998, respectively. Net cash used in investing activities was $76.6 million and $225.5 million for the years ended December 31, 1999 and 1998, respectively. These cash flows primarily reflect expenditures relating to RLEC acquisitions of $53.9 million and $217.1 million for the years ended December 31, 1999 and 1998, respectively, and capital expenditures of $43.5 million and $12.4 million for the years ended December 31, 1999 and 1998, respectively. Net cash provided by financing activities was $65.6 and $217.1 million for the years ended December 31, 1999 and 1998, respectively. These cash flows primarily represent borrowings, the proceeds of which were $138.9 million in 1999 and $510.6 million in 1998, and the proceeds from the issuance of common stock of $31.8 million in 1998. There was no common stock issued in 1999. A majority of the proceeds received in 1999 were used to repay long-term debt of $52.1 million and to complete the 1999 Acquisitions. A majority of the proceeds received in 1998 were utilized to repay long-term debt of $307.8 million and to complete the 1998 Acquisitions.

Net cash provided by operating activities was $14.9 million and $9.8 million for the years ended December 31, 1998 and 1997, respectively. Net cash used in investing activities was $225.5 million and $39.0 million for the years ended December 31, 1998 and 1997, respectively. These cash flows primarily reflect expenditures relating to acquisitions of RLECs of $217.1 million and $30.8 million for the years ended December 31, 1998 and 1997, respectively, and capital expenditures of $12.4 million and $8.3 million for the years ended December 31, 1998 and 1997, respectively. Net cash provided by financing activities was $217.1 million and $31.7 million for the years ended December 31, 1998 and 1997, respectively. These cash flows primarily represent borrowings, the proceeds of which were $510.6 million in 1998 and $71.1 million in 1997, and from the proceeds of the issuance of common stock of $31.8 million and $15.9 million in 1998 and 1997, respectively. A majority of the proceeds received in 1997 were utilized to repay long-term debt of $22.1 million and to repurchase preferred stock and warrants for an aggregate amount of $31.5 million.

Adjusted EBITDA represents net earnings (loss) plus interest expense, income taxes, depreciation, amortization, and extraordinary items.

Adjusted EBITDA is not a measure of financial performance under generally accepted accounting principles and should not be construed as a substitute for consolidated net earnings (loss) as a measure of performance or as a substitute for cash flow as a measure of liquidity. Adjusted EBITDA presented herein differs from the definition of EBITDA in the Indenture. The definition of EBITDA in the Indenture is designed to determine EBITDA for the purposes of contractually limiting the amount of debt which the

Company may incur. Adjusted EBITDA as calculated by the Company is not necessarily comparable to similarly captioned amounts of other companies.

Management believes Adjusted EBITDA provides useful information regarding the Company's ability to incur and/or service debt. Increases or decreases in Adjusted EBITDA may indicate improvements or decreases, respectively, in the Company's free cash flows available to incur and/or service debt and cover fixed charges. Management expects that, because Adjusted EBITDA is commonly used in the telecommunications industry as a measure of performance, investors may use this data to analyze and compare other telecommunications companies with the Company in terms of operating performance, leverage and liquidity.

Adjusted EBITDA increased 21.4% to $48.2 million for the year ended December 31, 1999 from $39.7 million for the year ended December 31, 1998. Adjusted EBITDA reported by the RLECs was $69.0 million, by STLD was $(0.9) million and by FairPoint was $(19.9) million for the year ended December 31, 1999. Adjusted EBITDA increased 74.9% from $22.7 million in the year ended December 31, 1997 to $39.7 million in the year ended December 31, 1998. Adjusted EBITDA reported by the RLECs was $44.6 million, by STLD was $(0.3) million and by FairPoint was $(4.6) million for the year ended December 31, 1998. Adjusted EBITDA reported by the RLECs was $24.1 million and by STLD was $(1.4) million for the year ended December 31, 1997.

The Company may secure additional funding through the sale of public or private debt and/or equity securities or enter into another bank credit facility to fund future acquisitions and operations. If the Company's growth occurs more rapidly than is currently anticipated or if its operating results are below expectations, there can be no assurance that the Company will be successful in raising sufficient additional capital on terms that it will consider acceptable, or that the Company's operations will produce positive cash flow in sufficient amounts to meet its debt obligations. The Company's failure to raise and generate sufficient funds may require it to delay or abandon some of its planned future growth or expenditures, which could have a material adverse effect on the Company's growth and its ability to compete in the telecommunications industry.

New Accounting Standards

In June 1998, the Financial Accounting Standards Board issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. SFAS 137 "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133", delays the effective date of this statement to all fiscal years beginning after June 15, 2000. The Company anticipates adopting this accounting pronouncement in 2001; however, management believes it will not have a significant impact on the Company's consolidated financial statements.

Inflation

The Company does not believe inflation has a significant effect on its operations.

Year 2000

The Company did not experience significant disruptions in its operations as a result of the Year 2000 issue.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is not exposed to material future earnings or cash flow exposures from changes in interest rates on long-term debt, since approximately 82% of the Company's debt is at fixed rates or effectively at fixed rates through the use of interest rate swaps. At December 31, 1999, the fair value of the

Company's long-term debt is estimated by discounting the future cash flows of each instrument at rates currently offered to the Company for similar debt instruments of comparable maturities. At December 31, 1999, the Company had long-term debt with a carrying value of approximately $462.4 million and estimated fair value of approximately $447.6 million. The market risk is estimated as the potential decrease in fair value of the Company's long-term debt resulting from a hypothetical increase of 91.9 basis points in interest rates (ten percent of the rates currently offered to the Company). An increase of 10% in interest rates would result in approximately a $0.9 million decrease in the fair value of the Company's long-term debt.

The Company has entered into interest rate swaps to manage its exposure to fluctuations in interest rates of its variable rate debt. The fair value of these swaps was approximately $1.0 million at December 31, 1999. The positive fair value indicates an estimated amount the Company would be paid to cancel the contracts or transfer them to other parties. In connection with the Credit Facility, the Company used an interest rate swap agreement with a notional amount of $25 million to effectively convert a portion of its variable interest rate exposure to a fixed rate of 9.91%. The swap agreement expires on September 29, 2000. In connection with the Floating Rate Notes, the Company used two interest rate swap agreements, with notional amounts of $50 million and $25 million, respectively, to effectively convert its variable interest rate exposure to a fixed rate of 10.01% and 9.95%, respectively. The swap agreements expire on November 1, 2001 and 2000, respectively.

Independent Auditors' Report

The Board of Directors
MJD Communications, Inc.:

We have audited the accompanying consolidated balance sheets of MJD Communications, Inc. and subsidiaries as of December 31, 1999 and 1998 and the related consolidated statements of operations, stockholders' equity (deficit), comprehensive loss and cash flows for each of the years in the three-year period ended December 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MJD Communications, Inc. and subsidiaries as of December 31, 1999 and 1998 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999, in conformity with generally accepted accounting principles.

/s/ KPMG LLP

March 1, 2000, except as to the fourth
and twelfth paragraphs of note 6
which are as of March 27, 2000
Lincoln, Nebraska

MJD COMMUNICATIONS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 1999 and 1998, including unaudited pro forma information as of December 31, 1999 (see Note 2)

	Pro Forma 1999 (see note 2) (unaudited)	1999	1998
	(Dollars in thousands)		
Assets			
Current assets:			
Cash and cash equivalents	$ 72,200	9,923	13,241
Accounts receivable, net of allowance for doubtful accounts of $921 in 1999 and $704 in 1998	25,658	25,658	19,112
Prepaid and other assets	4,039	4,039	3,283
Investments available-for-sale	7,327	7,327	—
Income taxes recoverable	1,453	1,453	—
Deferred income taxes	—	—	1,221
Total current assets	110,677	48,400	36,857
Property, plant, and equipment, net	178,296	178,296	142,321
Other assets:			
Investments	36,246	36,246	37,894
Goodwill, net of accumulated amortization	229,389	229,389	203,867
Debt issue costs, net of accumulated amortization	17,948	17,948	16,121
Covenants not to compete, net of accumulated amortization	3,706	3,706	2,938
Other	2,270	2,270	2,114
Total other assets	289,559	289,559	262,934
Total assets	$578,532	516,255	442,112

See accompanying notes to consolidated financial statements.

MJD COMMUNICATIONS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 1999 and 1998, including unaudited pro forma information as of December 31, 1999 (see Note 2)

Liabilities and Stockholders' Equity (Deficit)	Pro Forma 1999 (see note 2) (unaudited)	1999	1998
		(Dollars in thousands, except share data)	
Current liabilities:			
Accounts payable	$ 12,778	12,778	10,153
Current portion of long-term debt	3,866	3,866	3,502
Demand notes payable	752	752	754
Current portion of obligation for covenants not to compete	1,236	1,236	881
Accrued interest payable	4,200	4,396	3,947
Accrued property taxes	2,078	2,078	1,847
Other accrued liabilities	7,647	7,647	4,407
Income taxes payable	—	—	588
Deferred income taxes	1,767	1,767	—
Total current liabilities	34,324	34,520	26,079
Long-term liabilities:			
Long-term debt, net of current portion	361,585	458,529	364,610
Put warrant obligation	—	—	4,169
Unamortized investment tax credits	577	577	632
Obligation for covenants not to compete, net of current portion	2,622	2,622	2,162
Deferred income taxes	25,039	25,039	27,950
Other liabilities	11,551	3,106	3,189
Total long-term liabilities	401,374	489,873	402,712
Minority interest	443	443	435
Common stock subject to put option, 1,752,000 shares	—	3,000	3,000
Stockholders' equity (deficit):			
Preferred stock:			
Series D nonvoting, convertible, cumulative participating, par value $.01 per share, authorized 30,000,000 shares	215	—	—
Common stock:			
Class A voting, par value $.01 per share, authorized 60,000,000 shares, issued and outstanding 34,450,940 shares	115	345	345
Class B nonvoting, convertible, par value $.01 per share, authorized 50,000,000 shares	125	—	—
Class C nonvoting, convertible, par value $.01 per share, authorized 4,600,000 shares	42	—	—
Additional paid—in capital	230,862	48,793	45,407
Unearned compensation	(15,926)	—	—
Accumulated other comprehensive income	4,187	4,187	—
Accumulated deficit	(77,229)	(64,906)	(35,866)
Total stockholders' equity (deficit)	142,391	(11,581)	9,886
Total liabilities and stockholders' equity	$578,532	516,255	442,112

MJD COMMUNICATIONS, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended December 31, 1999, 1998, and 1997

	1999	1998	1997
	(Dollars in thousands)		
Operating revenues:			
Switched services	$108,430	72,124	39,257
Resold services	22,323	7,803	4,531
Other	16,786	12,080	3,975
Total operating revenues	147,539	92,007	47,763
Operating expenses:			
Plant operations	21,088	14,293	6,857
Corporate and customer service	54,901	27,635	12,483
Depreciation and amortization	31,632	20,089	8,777
Cost of services resold	19,190	6,163	4,791
Other general and administrative	9,028	7,265	2,416
Total operating expenses	135,839	75,445	35,324
Income from operations	11,700	16,562	12,439
Other income (expense):			
Net gain (loss) on sale of investments and other assets	512	651	(19)
Interest income	446	442	212
Dividend income	1,452	1,119	1,182
Interest expense	(51,185)	(27,170)	(9,293)
Other nonoperating, net	2,520	885	140
Total other expense	(46,255)	(24,073)	(7,778)
Earnings (loss) before income taxes and extraordinary item	(34,555)	(7,511)	4,661
Income tax (expense) benefit	5,615	2,112	(1,876)
Earnings (loss) before extraordinary item	(28,940)	(5,399)	2,785
Extraordinary item — loss on early retirement of debt, net of income tax benefit of $1,755 in 1998 and $2,296 in 1997	—	(2,521)	(3,611)
Loss before minority interest	(28,940)	(7,920)	(826)
Minority interest in income of subsidiaries	(100)	(80)	(62)
Net loss	$(29,040)	(8,000)	(888)

See accompanying notes to consolidated financial statements.